



AfDB

Development Research Brief

Number 4

June

2010

EDRE

Development Research  
Department  
Office of the Chief Economist, ECON

# **Reconciling Financial Sector Stability with Economic Development in Morocco**

**Issa Faye and Thouraya Triki\***

**State-owned enterprises key role in Morocco.** Morocco grew on average by 5% over the last decade. This performance can be attributed to the good performance of the traditional sources of growth, but also to macroeconomic and structural reforms, as well as an ambitious economic and industrial development program. State-owned enterprises (SOE) have been at the core of this dynamism.

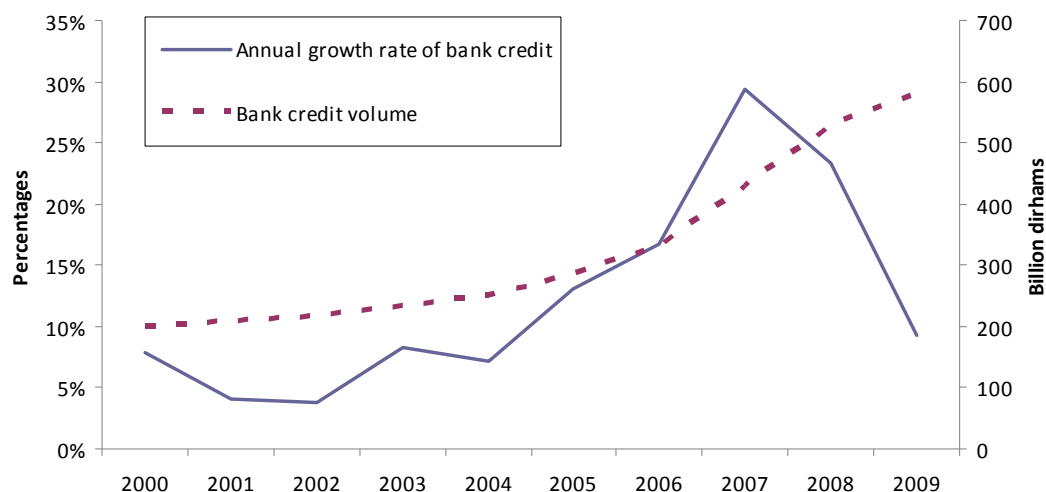
- SOEs contribution to GDP almost doubled between 2006 and 2008 to reach USD 9.9 billion, i.e., 12% of GDP in 2008.
- In 2008 investments by SOEs amounted to 9.6% of GDP. SOEs have been able to implement 91% of their planned investments in 2008.
- SOEs employed 124,600 persons, i.e. 14% of the public sector staff, in 2009.
- Investments by SOEs grew by 16% in 2009, and are expected to grow by 30% in 2010.

SOEs' contribution to Morocco's economic development in the coming years will depend on their ability to execute their planned investments. SOEs will need continued access to large and long term resources from the financial sector to fulfill their plans.

**Stringent bank regulation exacerbates credit dry up.**

While the annual growth rate of credit to the economy quadrupled between 2004 and 2007, it suffered a threefold contraction between 2007 and 2009 (Figure 1). In 2007 the banking system started facing a liquidity constraint. That liquidity constraint was exacerbated by the requirement in 2007 for 3 state-owned banks to comply with minimum reserve requirements, as well as an already high credit contribution to the economy. This translated into Moroccan banks experiencing difficulties to keep pace with the increasing demand for credit. Some Moroccan banks have reached their exposure limit to a single counterpart, in accordance with the prudential regulatory rule that sets the single obligor limit to 20 percent. This situation is expected to worsen because Bank Al Maghrib is contemplating the implementation of the advanced version of Basel II first pillar on bank minimum capital requirement by early 2011. The tightening of conditions in pillar 1 will further limit provision of credit to the economy.

**Figure 1: Bank Credit to the Economy**



Source: Monetary Statistics from Bank Al Maghrib- All data are for end of December

**Box 1: Effects of the single obligor limit regulation on the Office Chérifien des Phosphates**

The Office Chérifien des Phosphates (OCP), a very profitable limited-liability state-owned (94%) company is facing difficulties to finance the first phase of its investment programs (USD 1.7 billion) geared towards modernizing and providing an integrated platform for the chemical and phosphate industries. This investment program is part of a broader Government counter-cyclical policy geared towards fostering public related investments in order to stimulate demand. Meanwhile, there are large local banks such as BMCE (*Banque Marocaine du Commerce Extérieur*) which are eager to provide the necessary funding but cannot do so because of the single obligor exposure limit.

**Recommendations**

- Influence global regulatory debates, including through the Committee of 10, to mainstream the use of countries' discretionary power in the adoption of Basel II recommendations. The end objective is to avoid implementation of regulatory measures which would stifle financial sector deepening and economic development;
- Sponsor the review of current regulatory frameworks to promote a right balance between financial sector stability and economic development;
- Provide affordable long-term funding to selected profitable state-owned companies with good corporate governance practices and high potential contribution to investment and employment creation.
- Crowd in local commercial bank financing through the provision of total or partial guarantee products geared towards increasing their exposure limit headroom.

Comments and suggestions can be sent to:

Leonce Ndikumana  
Abdul B. Kamara  
Development Research Department  
African Development Bank

BP 323, 1002 Tunis Belvedere, Tunisia – Tel.: +21671102876 – Fax: +21671103779 – E-mail: [economic-research@afdb.org](mailto:economic-research@afdb.org) – Web: [www.afdb.org](http://www.afdb.org)

The views expressed in the Development Research Brief are those of the authors and do not necessarily represent the views of the African Development Bank, the Board of Governors, the Board of Directors or the Governments they represent.

\* Issa Fave and Thourava Triki are, respectively, Principal Research Economist and Senior Research Economist, Development